

**Supplemental Reporting Document
Table of Contents
October 2005 Investment Committee Meeting
(August 2005 Reporting Period)**

Quarterly and Annual Reports

AIM Program Quarterly Report

Economically Targeted Investments Program Annual Report



Investment Office
P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400

October 17, 2005

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

Background

In accordance with AIM Program Policy and as provided for in the external resources contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of June 30, 2005. The report may be modified over time to reflect additional enhancements.

Program Review

As of June 30, 2005, the AIM Program had 473 active commitments that totaled \$25.5 billion. Commitments to exited investments totaled \$1.7 billion bringing since inception (1990) commitments to \$27.2 billion. Since inception, the AIM Program has made contributions of \$17.2 billion and received distributions of \$13.2 billion. Of the \$13.2 billion in distributions, \$7.2 billion represents realized gains, income and dividends. The AIM Program's fully realized investments have provided a since inception return of 17.9%. This represents a 1.6x return of

contributed capital. Since Inception to June 30, 2005, the AIM Program has generated a net IRR of 11.1%.

V. STRATEGIC PLAN:

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions

VI. RESULTS/COSTS:

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Reporting Unit staff.

Dana C. Warmenhoven
Investment Officer
Performance Monitoring Unit

Albert E. Grijalva
Investment Officer
Performance Monitoring Unit

Greg Hood
Division Chief, Investment Office

Anne Stausboll
Assistant Executive Officer

Mark Anson
Chief Investment Officer

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

QUARTERLY REVIEW

EXECUTIVE SUMMARY

*For the quarter ended
June 30, 2005*

Prepared by The PrivateEdge Group, State Street Corporation



STATE STREET

TABLE OF CONTENTS

Section	Page
A. AIM PROGRAM - OVERALL PORTFOLIO.....	1
Portfolio Summary	1
Performance	2
Portfolio Activity	2
B. MARKET OVERVIEW	3
C. PORTFOLIO OVERVIEW	5
Portfolio Diversification – By Strategy	5
Portfolio Geographic Diversification	6
Portfolio Company Diversification by Industry	7
California Focus	8
D. AUTHORIZED COMMITMENTS.....	9
E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY	10



TABLE OF CONTENTS (Continued)

Page

TABLES

Table 1 - Summary of AIM Portfolio	1
Table 2 - Amount Committed by Portfolio Strategy	5
Table 3 - Portfolio Company Distribution by Industry	7
Table 4 - California-Based Portfolio Diversification by Industry	8
Table 5 - Summary of Capital Commitments and Contributions	9

FIGURES

Figure 1 - AIM Program Cumulative Cash Flows Since Inception	2
Figure 2 - AIM Program Cumulative Distributions Since Inception	2
Figure 3 - Private Equity Funds Raised	3
Figure 4 - Private Equity Dollars Invested	4
Figure 5 - AIM Program - Portfolio Diversification by Strategy	5
Figure 6 - AIM Program - Portfolio Diversification by Geographic Location	6
Figure 7 - Portfolio Company Diversification by Industry	7



I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

Portfolio Summary

- As of June, 2005, the AIM Program had 473 active commitments that totaled \$25.5 billion. Commitments to exited investments totaled \$1.7 billion, bringing since inception commitments to \$27.2 billion.
- Since inception, the AIM Program has made contributions of \$17.2 billion and received distributions of \$13.2 billion. Of the \$13.2 billion in distributions, \$7.2 billion represents realized gains, income and dividends. The Program has become self-funding. During the first half of 2005, distributions exceeded contributions by \$0.4 billion.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At June 30, 2005, 38% of the active capital commitments, or \$9.6 billion, remained unfunded.

SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH JUNE 30, 2005 (US\$ IN MILLIONS)

	Number of Commitments ⁽¹⁾	Capital Committed	Capital Contributed ⁽²⁾	Reported Value ⁽³⁾	Distributions		Investment Multiple
					Return of Capital	Realized Gain ⁽⁴⁾	
Total Active Commitments⁽⁵⁾	473	\$25,522.9	\$15,884.7	\$9,555.2	\$4,933.2	\$6,207.3	1.3x
Total Exited Commitments⁽⁶⁾	34	--	\$1,287.0	--	\$1,034.8	\$1,005.9	1.6x

⁽¹⁾ Represents all authorized commitments as of June 30, 2005, including those commitments that have been authorized but not yet funded.

⁽²⁾ Includes fees in excess of committed capital.

⁽³⁾ Based on values reported by the general partners as June 30, 2005.

⁽⁴⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽⁵⁾ An active commitment refers to an investment that has not reached the end of its legal term.

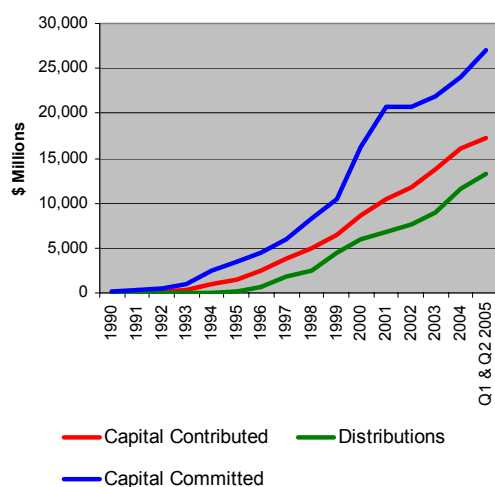
⁽⁶⁾ An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.



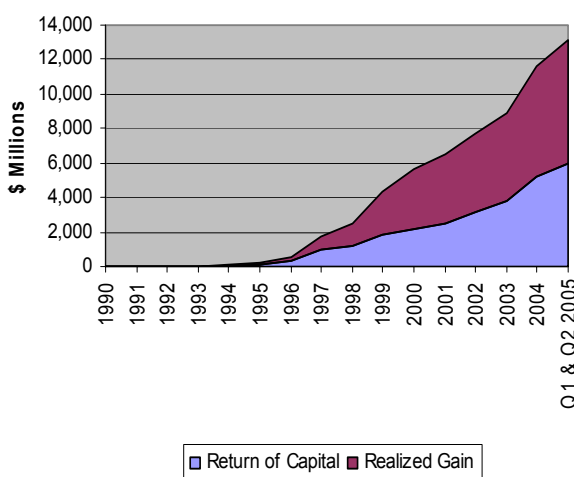
Performance

- Fully realized investments have provided a since inception return of 17.9%. This represents a 1.6x return of contributed capital.
- As of June 30, 2005, the weighted average age of all of the current investments in the AIM portfolio was 3.8 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of June 30, 2005, the AIM young fund net internal rate of return ("IRR") was 13.4% which exceeded the preliminary estimate of the Custom Young Fund Universe median return of 1.0% by 1,240 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to June 30, 2005, the AIM Program generated a net IRR of 11.1%. At June 30, 2005, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 9.8%. The public markets have been recovering over the past few quarters, but there is typically a lag in the valuations in the private market relative to those in the public markets.

**AIM PROGRAM CUMULATIVE
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS
SINCE INCEPTION**



Portfolio Activity

- 23 new commitments were authorized during the second quarter of 2005 for a total of \$2.5 billion.
- During the second quarter of 2005 the AIM Program received 82 investment opportunities. During the same period, GSA reviewed 115 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During the first half of 2005, the AIM Program contributed \$1,077.4 million to and received distributions of \$1,549.4 million from the underlying portfolio. Of the \$1,549.4 million in distributions, \$796.2 million represents income and realized gains.

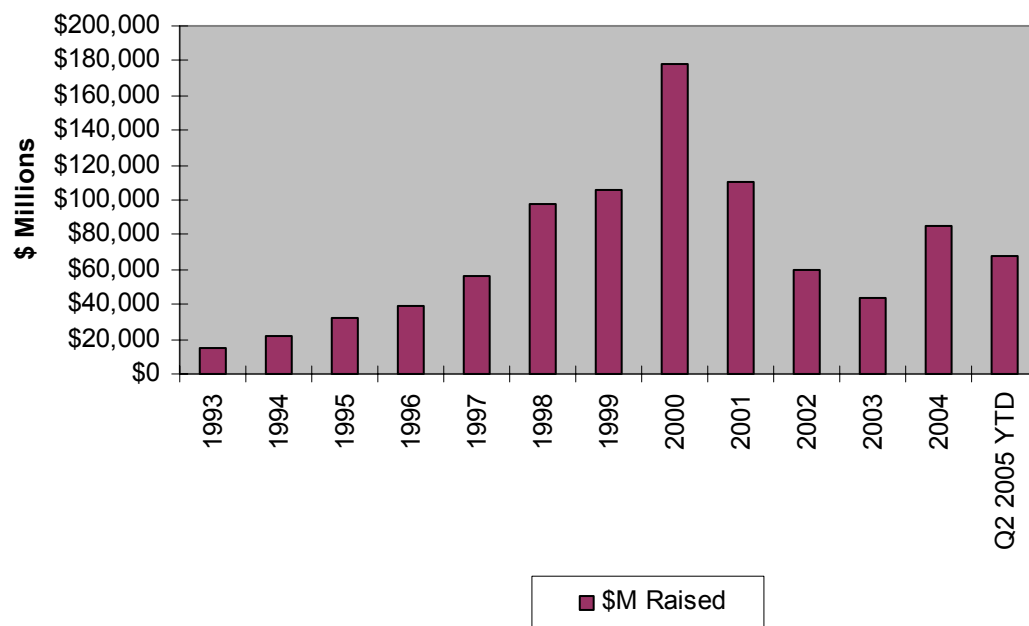


B. MARKET OVERVIEW

Market

- According to the Private Equity Analyst, \$67.4 billion was committed to 138 funds during the first half of 2005. The commitment pace is up from the first half of 2004 when \$30.5 billion was committed to 87 funds. Venture capital fundraising was up 208% from the first half of 2004 with \$13.5 billion committed in the first half of 2005. Buyout fundraising was up 120% from the first half of 2004 with \$44.0 billion committed in the first half of 2005.

Funds Raised (All Private Equity)

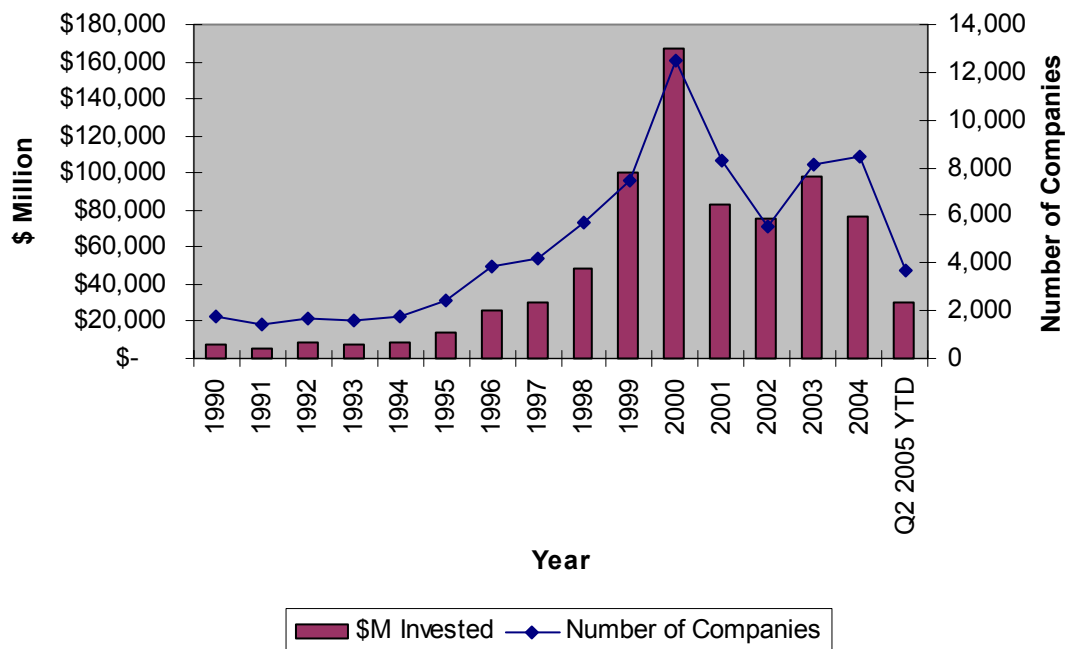


Source: Private Equity Analyst



- Deal activity for all private equity during the first half of 2005 decreased in both dollar amount and in the number of companies receiving funding compared to the first half of 2004. According to Venture Economics, 3,684 companies received \$29.9 billion in funding in the first half of 2005, compared with 4,196 companies that received \$38.6 billion in the first half of 2004.
- In the first half of 2005, venture capital activity decreased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 3,069 companies received \$19.2 billion in venture funding in the first half of 2005 compared with 3,653 companies that received \$21.3 billion for the same period a year ago. During the first half of 2005, buyout activity decreased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 1,280 companies received \$14.8 billion in buyout funding in the first half of 2005, compared with 1,289 companies that received \$21.7 billion for the same period in 2004.⁽⁸⁾

Dollars Invested (All Private Equity)



Source: Venture Economics

⁽⁸⁾ According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



C. PORTFOLIO OVERVIEW

Portfolio Diversification – By Strategy

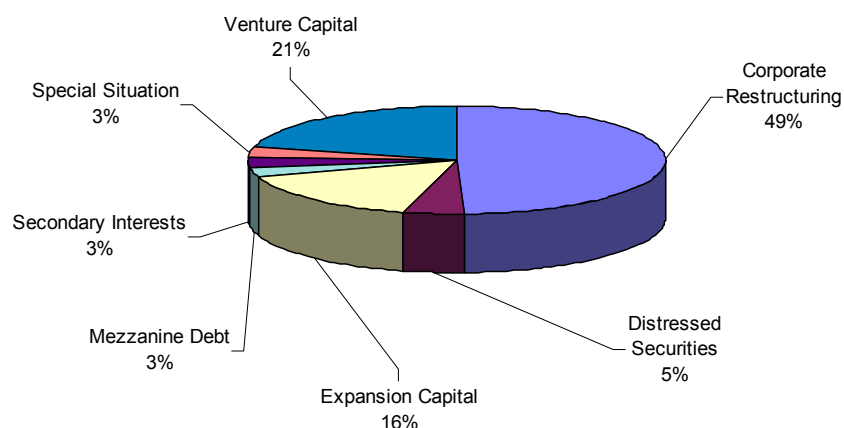
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain⁽⁹⁾</i>
	\$12,597.3	\$7,334.4	\$4,855.2	\$2,637.1	\$3,647.4
Distressed Securities	\$1,210.5	\$712.3	\$459.9	\$286.5	\$306.7
Expansion Capital	\$3,969.6	\$2,857.5	\$1,556.9	\$650.9	\$790.2
Mezzanine Debt	\$742.1	\$486.8	\$227.0	\$166.4	\$88.8
Secondary Interests	\$837.3	\$659.3	\$310.6	\$517.1	\$80.7
Special Situation	\$769.6	\$390.0	\$270.2	\$117.0	\$87.8
Venture Capital	\$5,396.5	\$3,444.4	\$1,875.4	\$558.2	\$1,205.7
Total	\$25,522.9	\$15,884.7	\$9,555.2	\$4,933.2	\$6,207.3

⁽⁹⁾ Realized gains include interest, dividends and gains distributed by the general partners.

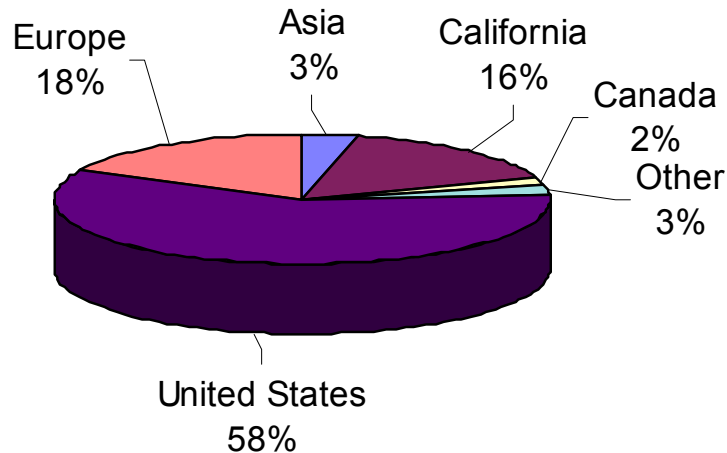
AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of June 30, 2005



Portfolio Geographic Diversification

As of June 30, 2005, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 16% of the investments were in companies with their primary locations within California and 58% of the investments were in non-California domestic areas. International portfolio companies represented 26% of the total reported market value of all portfolio companies.

Portfolio Diversification by Geographic Location As Measured by CalPERS' Market Value Exposure As of June 30, 2005



Portfolio Company Diversification by Industry

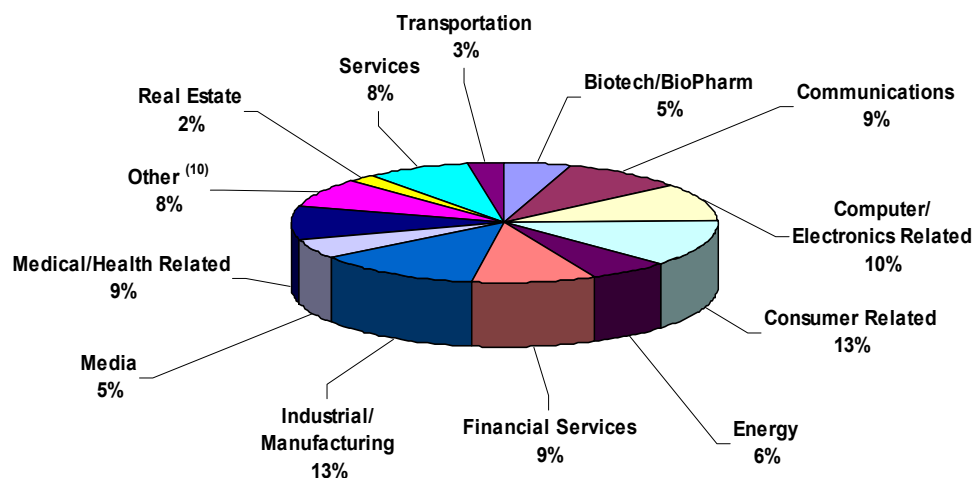
As of June 30, 2005, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, industrial/manufacturing and computer/electronics.

PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2005

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharma	454.0
Communications	838.9
Computer/Electronics -Related	911.5
Consumer-Related	1,147.2
Energy	551.2
Financial Services	838.9
Industrial/Manufacturing	1,143.3
Media	496.4
Medical/Health-Related	797.5
Other ⁽¹⁰⁾	714.9
Real Estate	185.5
Services	701.2
Transportation	263.8
Total	9,044.3

⁽¹⁰⁾ Includes CalPERS' investments held through fund-of-funds.

Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of June 30, 2005



California Focus

As of June 30, 2005, the AIM Program had \$9.6 billion in active commitments that were either headquartered or had a major presence in California. Active commitments to funds that focus primarily on investments in California were \$2.1 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 16% of the reported market value of the AIM portfolio.

CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2005

Industry	Reported Value (US\$ IN MILLIONS)
Biotechnology/BioPharma	\$ 208.8
Communications	108.4
Computer/Electronics Related	324.2
Consumer-Related	126.6
Energy	18.9
Financial Services	146.6
Industrial Products/Manufacturing	40.9
Media	81.8
Medical/Health-Related	169.6
Other ⁽¹¹⁾	72.5
Real Estate	36.2
Services	123.3
Transportation	8.4
Total	\$ 1,466.2

⁽¹¹⁾ Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



D. AUTHORIZED COMMITMENTS

During the second quarter of 2005, the AIM Program authorized 23 new investments, totaling \$2.5 billion in new commitments.

Commitments and Contributions Since Inception

Since inception to June 30, 2005, CalPERS has contributed capital of \$17.2 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain⁽¹²⁾</i>	<i>Investment Multiple</i>
1990	\$125.3	\$121.9	\$2.9	\$119.0	\$171.8	2.4
1991	171.7	179.6	0.3	150.5	357.0	2.8
1992	160.0	156.6	5.1	106.7	224.0	2.1
1993	563.0	561.9	76.3	429.5	555.3	1.9
1994	1,494.2	1,403.8	227.2	857.3	1,349.6	1.7
1995	1,197.9	1,135.1	130.6	605.1	937.5	1.5
1996	1,155.9	1,133.7	180.8	579.1	738.0	1.3
1997	1,111.9	1,084.9	444.5	392.8	682.6	1.4
1998	2,217.4	2,136.3	1,090.9	867.2	750.9	1.3
1999	1,291.4	1,106.7	615.0	303.1	306.1	1.1
2000	4,032.4	3,109.6	2,290.6	533.2	460.5	1.1
2001	4,783.8	3,203.5	2,713.0	824.3	500.6	1.3
2002	1,085.3	604.9	580.1	90.7	99.6	N/M
2003	1,496.2	685.9	671.9	85.9	77.9	N/M
2004	1,851.1	434.0	426.5	23.1	2.3	N/M
2005	1,465.9	113.3	99.5	0.5	(0.5)	N/M
Authorized⁽¹³⁾	\$3,027.7	-	-	-	-	N/A
Total	\$27,231.1	\$17,171.7	\$9,555.2	\$5,968.0	\$7,213.2	1.3

⁽¹²⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽¹³⁾ These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)

Significant Events

- None to report for the quarter ended June 30, 2005.

Material Exceptions to Policy

- None to report for the quarter ended June 30, 2005.





Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

October 17, 2005

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Economically Targeted Investments Program Policy
- II. PROGRAMS:** Real Estate, Fixed Income, and Alternative Investments
- III. RECOMMENDATION:** Information only
- III. ANALYSIS:**

Under the CalPERS' Economically Targeted Investments Program Policy, Staff is directed to report annually to the Investment Committee the Fund's investment in underserved areas located in California. The policy adopted on October 15, 2001 has a stated goal of 2% of the total Fund's assets. A summary table of CalPERS' investments is provided as Attachment 1. All told, CalPERS' investments and commitments to underserved areas of California totaled \$4.880 billion, exceeding the stated goal by \$1.08 billion. These investments are summarized in Attachment 1 and concentrated in the following three asset classes:

A. Real Estate

California Urban Real Estate

The CURE program is focused on addressing both the housing shortage as well as a lack of general development in urban infill locations throughout California. The program has 13 existing partners with a total of \$3.4 billion allocated primarily for California urban infill investments.

Senior Housing

Senior Housing Program was allocated \$275 million for investing in Assisted Living, Independent Living, and continuing Care Retirement Communities. \$40.40 million is committed to underserved areas.

AFL-CIO Building Investment Trust

The Building Investment Trust is a balanced fund that provides increased investment opportunities within targeted geographic areas. At the end of the first quarter, targeted California properties totaled \$24.8 million.

Single Family Housing

Since inception, the CalPERS Single Family Housing Program has funded the construction of approximately 45,000 homes in California, 21,000 of which are in the entry level price range. As of June 30, 2005, \$232.0 million or 43.5% of the total outstanding program capital for California was committed to entry level housing.

B. Alternative Investments

The AIM Program participates in underserved areas through 10 partnerships in the \$480 million California Initiative Program. In addition, the AIM unit participates in underserved areas through other fund commitments, and direct investments.

C. Fixed Income

Member Home Loan Program (MHLP)

This program accounts for a large portion of Community Redevelopment Act (CRA) loans made to low to moderate income families. Through this program, \$275 million of loans were made and remain on CalPERS' balance sheet.

Home Equity Loans

The Fixed Income Staff purchased over \$18.9 million of home equity loans from underserved markets in California. The Fixed Income staff also purchased \$.4 million of multi-family housing mortgages in underserved markets.

IV. STRATEGIC PLAN

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

V. RESULTS/COSTS

The proposed policy will increase CalPERS' exposure to the underserved and emerging market components of California's economy as well as CalPERS' overall exposure to the California State economy.

Christian Cardeno
Trade Settlement Analyst

Matt Flynn
Assistant Division Chief

Greg Hood
Division Chief

Anne Stausboll
Assistant Executive Officer

Mark Anson
Chief Investment Officer

CalPERS' Economically Targeted Investments Program Policy Attachment 1

<u>Real Estate</u>	Millions
California Urban Real Estate	\$3,400.00
Senior Housing	\$40.40
AFL-CIO Building Trust	\$23.10
Single Family Housing	
Entry Price Level Homes	<u>\$232.00</u>
Total Real Estate	\$3,695.50
 <u>Alternative Investments</u>	
California Initiative	\$480.00
Other Fund Commitments	\$245.00
Direct Investments	<u>\$99.00</u>
Total Alternative Investments	\$824.00
 <u>Fixed Income</u>	
Holdings	
Member Home Loan CRA	\$275.03
Community Redevelopment Act	\$66.00
Home Equity Loans	\$18.97
Multi Family Housing	<u>\$0.38</u>
Subtotal	\$360.38
Total Fixed Income	<u>\$360.38</u>
 Grand Total	<u><u>\$4,879.88</u></u>